

1  
2  
3  
4  
5  
6  
7  
8 **BEFORE THE INSURANCE COMMISSIONER**  
9 **OF THE STATE OF CALIFORNIA**  
10

11 In the Matter of the Private Passenger Rate  
12 Increase Application of the California  
13 Automobile Assigned Risk Plan for  
14 Uninsured Motorists and Medical Payments  
15 Coverages for the California Low Cost  
16 Automobile Insurance Pilot Program,

17 Applicant.

FILE NO. RH03026432

DECISION AND ORDER

16  
17 A consideration of rates and coverage limits for optional uninsured motorists bodily injury  
18 and medical payments coverages for the California Low Cost Automobile Insurance Pilot  
19 Program, as well as a payment schedule for a new premium payment option came on for public  
20 hearing on May 7, 2003. Written testimony and exhibits were received and statements,  
21 arguments and public comments were heard. At the conclusion of the hearing, the record was left  
22 open until the close of business on May 16, 2003 to permit the submission of additional  
23 information, which has also been considered.

24 **BACKGROUND**  
25

26 Effective January 1, 2003, recently enacted low cost automobile insurance program  
27 legislation, Stats. 2002, chapter 742 (formerly Senate Bill 1427 Escutia), requires that uninsured  
28 motorists and medical payments coverages be offered to eligible consumers. Consistent with



1 California Insurance Code Section 11580.2, the legislation provided for uninsured motorists  
2 bodily injury coverage at the lower liability limits of the underlying low cost auto insurance  
3 policy, but did not set limits for medical payments coverage. The legislation did not specify a  
4 rate for the additional coverages, but merely stated that additional premiums were authorized. In  
5 addition, the legislation provided for a new premium installment payment option of a fifteen  
6 percent deposit and six installments, without specifying if the payments were to be made on a  
7 monthly or bi-monthly basis.

8  
9 California Insurance Code (CIC) Sections 11629.72(c) and 11629.92(c) provide that,  
10 annually, the California Automobile Assigned Risk Plan (CAARP) shall submit to the  
11 Commissioner a proposed rate for approval. Accordingly, CAARP submitted proposed rates for  
12 these additional coverages. In its rate application, CAARP proposed premiums for uninsured  
13 motorists bodily injury coverage, at the lower liability limits of the low cost auto insurance  
14 policy, of \$761 for Los Angeles County and \$531 for the City and County of San Francisco. For  
15 medical payments coverage, with limits of \$1,000, CAARP proposed premiums of \$142 for Los  
16 Angeles County and \$89 for the City and County of San Francisco. CAARP also proposed that  
17 the new premium payment plan be based on six monthly payments.

18 To expedite implementation of the legislation, the Department established initial rates and  
19 limits for the coverages by emergency regulations, which were approved on January 13, 2003 and  
20 readopted effective May 6, 2003. Based upon an actuarial review of CAARP's methodology and  
21 approach and independent calculations, the Department proposed different rates than those  
22 proposed by CAARP. Current rates for uninsured motorists bodily injury coverage, at  
23 \$10,000/\$20,000 limits, are \$64 for Los Angeles County and \$39 for the City and County of San  
24 Francisco. The current rates for medical payments coverage, at limits of \$1,000, are \$26 for Los  
25 Angeles County and \$24 for the City and County of San Francisco.

26  
27 The statutes specify that rates shall be sufficient to cover losses incurred under policies  
28 issued under the pilot program and expenses. In assessing loss reserves, the Commissioner shall



1 only allow loss reserves estimated from actual losses in the pilot programs or comparable data by  
2 a licensed statistical agent, adjusted to reflect coverage provided by the pilot programs. Rates  
3 shall be set so as to result in no subsidy of the program or subsidy of policyholders in one pilot  
4 program by policyholders in the other pilot program. In accordance with these rate-setting  
5 standards, on February 26, 2003, the Commissioner issued a Notice of Proposed Action and  
6 Notice of Public Hearing and Initial Statement of Reasons to consider current rates and CAARP's  
7 proposal.

8  
9 Because actual claims experience for the Low Cost Automobile Insurance Program is  
10 insufficient to satisfy actuarial standards for credibility, CAARP analyzed comparable data, as  
11 provided by statute. Contending that CAARP policyholders are more like low cost automobile  
12 policyholders than any other policyholder group, CAARP used CAARP policyholder data as its  
13 source data.

## 14 **DECISION**

15 After carefully considering CAARP's rate recommendation and oral and written  
16 comments submitted during the public hearing period, the Commissioner has determined to  
17 maintain current premiums and limits for the additional coverages. For uninsured motorists  
18 bodily injury coverage, at limits of \$10,000/\$20,000, annual premiums shall be \$64 for Los  
19 Angeles County and \$39 for the City and County of San Francisco. The premiums for medical  
20 payments coverage, at \$1,000 limits, shall be \$26 for Los Angeles County and \$24 for the City  
21 and County of San Francisco. In addition, the Commissioner has determined to adopt a premium  
22 payment schedule of bi-monthly payments for the new premium payment option, consistent with  
23 the payment schedules for the other premium payment options under the program.

### 24 **Comparable Data**

25  
26 The Commissioner finds that the use of comparable data based on basic limits policies in  
27 the voluntary market, rather than data based on CAARP policyholders, is reasonable and  
28



1 consistent with the legislature's approach in setting initial rates for the pilot program, and  
2 consistent with the legislature's approach in reducing rates enacted in 2002 Stats. Chapter 742.  
3 Deriving rates for the additional coverages from its calculations for basic rates, using the  
4 approach first developed by the legislature's consulting actuary Donald Bashline for the initial  
5 rates for the low cost auto policy, the Commissioner has determined that the current rates for  
6 uninsured motorists bodily injury coverage of \$64 for Los Angeles County and \$39 for the City  
7 and County of San Francisco and, for medical payments coverage, rates of \$26 for Los Angeles  
8 County and \$24 for the City and County of San Francisco are adequate and meet the rate-setting  
9 standards of California Insurance Code Sections 11629.72 and 11629.92.

10  
11 **ORDER**

12 For the reasons above, it is hereby ORDERED that the current rates for uninsured  
13 motorists bodily injury coverage, at limits of \$10,000/\$20,000, of \$64 for Los Angeles County  
14 and \$39 for the City and County of San Francisco be maintained and that the current rates for  
15 medical payments coverage, at limits of \$1,000, of \$26 for Los Angeles County and \$24 for the  
16 City and County of San Francisco be maintained. It is further ORDERED that premium  
17 payments for the fifteen percent down and six payments option may, at the policyholder's option,  
18 be made on a bi-monthly basis.

19 Dated: July 28, 2003  
20

21 **JOHN GARAMENDI**  
22 **INSURANCE COMMISSIONER**

23  
24 \_\_\_\_\_/s/\_\_\_\_\_  
25  
26  
27  
28